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SENATE

REPORT
99-330

PHILIPPINES ASSISTANCE ACT OF 1986

JUNE 26 (legislative day, June 23), 1986.—Ordered to be printed

Mr. LUGAR, from the Committee on Foreign Relations, submitted the following

REPORT

[To accompany S. 2610]

The Committee on Foreign Relations, having had under consideration an original bill to authorize supplemental economic and military assistance for the Philippines, and for other purposes, reports favorably thereon and recommends that the bill do pass.

PURPOSE OF THE BILL

The purpose of the "Philippines Assistance Act of 1986" is to authorize appropriations of additional economic and military assistance for the Republic of the Philippines as a demonstration of continued U.S. support for the government of President Corazon Aquino and the Filipino people.

MAJOR PROVISIONS

The bill authorizes $100 million in additional Economic Support Fund (ESF) moneys for each of fiscal years 1986 and 1987 and $50 million in additional Military Assistance Program (MAP) moneys for fiscal year 1986 for the Philippines. In addition, the bill (1) expresses the sense of the Congress that the President should consider the feasibility appointing a Special Coordinator to formulate and implement U.S. programs in the Philippines and (2) in a separate provision expresses the sense of Congress that the President should consider the feasibility and efficacy of temporarily suspending collection of interest and payments due to the U.S. in 1986 and 1987 until rescheduling negotiations have been completed. The latter provision urges the President to consider in relation to 1986 and 1987 debt service the implications of negotiating a rescheduling

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agreement at least as favorable as the most recent rescheduling agreement between the United States and the Philippines and make every effort to ensure that other official creditors extend comparable concessions on Philippine debts. Finally, the bill deletes Section 901 of 1985, which placed restrictions on the provision of aid to the previous, Marcos-led, government.

COMMITTEE ACTION

The committee held a hearing on the issue of supplemental economic and military assistance to the Philippines on June 3, 1986. The following witnesses testified:

Panel I: Senator John Melcher.

Panel II: Gaston J. Sigur, Assistant Secretary, Bureau of East Asian and Pacific Affairs, Department of State; Richard L. Armitage, Assistant Secretary, International Security Affairs, Department of Defense; Charles W. Greenleaf, Jr., Assistant Administrator, Bureau for Asia, Agency for International Development.

Senator Lugar introduced S. 2378 on April 28, 1986, at the request of the Administration. On June 12, 1986, the committee met to consider the issue. At that meeting, Senator Lugar offered an original bill as a substitute. Senator Sarbanes offered an amendment to the Lugar original bill pertaining to the appointment of a Special Envoy to the Philippines. The committee modified and accepted the Sarbanes amendment. Senator Dodd offered an amendment pertaining to temporary postponement of 1986 and 1987 debt service. The committee deferred action on the bill pending further consideration of the Dodd amendment. The committee met again on June 26 and considered an original bill incorporating both the Sarbanes amendment and a modified version of the Dodd amendment. The bill was ordered to be reported favorably to the Senate by a vote of 14 yeas and 3 nays. Senators Lugar, Mathias, Kassebaum, Boschwitz, Murkowski, Trible, Evans, Pell, Biden, Sarbanes, Cranston, Dodd, Eagleton and Kerry voting in the affirmative and Senators Helms, Pressler and Zorinsky voting in the negative.

BACKGROUND

On February 25, 1986, Corazon Aquino was sworn in as President of the Philippines following 2 weeks of political instability brought about by a Febraury 7 presidential election judged by the Filipino people to have been flawed by fraud, intimidation and munipulation by the regime of then-president Ferdinand Marcos and his ruling party, the New Society Movement (KBL).

In one of her first acts, President Aquino abolished the old constitution (and with it the Legislative Branch of government) and proclaimed her intention to create a committee to write a new constitution. The committee was appointed May 25 and is scheduled to complete its work by September, at which time the new constitution will be submitted to a national plebiscite, to be followed within 6 months by elections of local officials and a new national legislature.

President Aquino inherited all the problems of the Marcos regime—a deteriorating economy, political institutions severely eroded by 2 decades of authoritarian rule, and a well organized,

well armed communist insurgency influencing large areas of the countryside. President Aquino has called a 6 months truce but the New People's Army (NPA) has increased its military operations significantly, killing more than 800 government soldiers or civilian officials in the past 3 months. The government's effort to "call the insurgents down from the hills" in exchange for amnesty has thus far not had appreciable effect. The Communist National Democratic Front is increasingly active in the more permissive post-revolutionary political atmosphere.

CURRENT SITUATION

The Aquino government faces near bankruptcy. With projected budget deficit of U.S. $1 billion for all of 1986, Marcos, by the time he left office, had already increased the debt that amount during the first 2 months of 1986 in his effort to win reelection. For the first half of 1986, the Philippines deficit is already estimated at close to U.S. $2 billion.

Unless the Aquino government is able to address the current economic crisis rapidly and effectively, all other problems—the insurgency, political drift, social unrest—will become progressively worse. Beyond the deficit, economic problems include capital flight, alarmingly high unemployment, lack of investor confidence, stagnation in traditionally important agricultural areas (sugar, coconuts) and depression in almost all business sectors. There has been 5 percent negative economic growth each of the past 2 years. Moreover, the system of "crony capitalism," over-centralization and inefficient state-operated enterprises developed by Marcos over 2 decades has rendered reform of the economy difficult. Real reform will take years—yet the Aquino government is under pressure to achieve immediate results or risk loss of the political momentum achieved through the "February revolution."

SUPPLEMENTAL REQUEST

The thrust of the Administration's proposal is to provide an infusion of $150 million in Economic Support Fund (ESF) and Military Assistance Program (MAP) in addition to the $235 million of military, economic and PL 480 assistance already allocated for fiscal year 1986. The prime purpose of this additional assistance would be to provide budget support for the Philippine Government to reverse the downward economic spiral and inspire political confidence. The request for additional Economic Support Fund and Military Assistance Program funding is contained in S. 2378.

In addition, the Administration proposed a series of administrative actions and appropriations legislation actions which would have the effect of enhancing the U.S. assistance programs in the Philippines. Those provisions of the overall Administration proposal were not reflected in S. 2378.

Bilateral economic assistance proposal

The Administration proposed to increase U.S. bilateral economic assistance in both quantitative and qualitative terms. The elements of the package include a higher level of funding, acceleration in the

disbursement of funds, and better terms under which funds are made available, as shown below:

Authorization and appropriation of an additional $100 million in Economic Support Funds (ESF) in fiscal year 1986;

Acceleration of disbursement of the currently authorized pipeline of about $200 million in ESF funds;

Conversion of $100 million of already obligated but undisbursed Development Assistance funding from loan to grant, thus providing a total of $140 million of grant development assistance;

Deobligation/reobligation authority in Development Assistance through March 31, 1987, and lifting of functional account restrictions to permit reprogramming of resources to better meet current requirements;

An expansion of food imports under PL 480 Title II and Section 416 of the Agriculture Act from $35 to $50 million.

The entire package totals about $500 million, although only $100 million would be new funds. All would be on a grant basis except PL 480 Title I, which is on a highly concessionary loan basis. Thus U.S. assistance would provide economic support without adding appreciably to the large external debt burden inherited by the Aquino government.

In addition, the Administration proposes a substantial increase in "people to people" assistance, such as school and child feeding, food for work, and health programs to reduce infant and child mortality. These programs are generally administered by private voluntary and church organizations. The Peace Corps program in the Philippines would be involved in this effort. One target for this expanded effort would be the severely depressed sugar producing region on Negros Island. The increased funding for these programs would come from PL 480, Title II and Section 416 of the Agriculture Act of 1985. It would approximately double the currently programmed level of $7.7 million.

Finally, the program would seek to give direct support to private sector development, utilizing various funding sources including new authorities for the PL 480 Title I program contained in Section 108 of the Food Security Act of 1985.

(As described above, the original bill submitted by Senator Lugar as a substitute for S. 2378 supports the Administration's request for fiscal year 1986 and adds $100 million in ESF for fiscal year 1987 for a total of $200 million in new money for economic assistance.)

Military assistance proposal

Based on the premise that additional military assistance is urgently needed for basic requirements—logistics, communications, transportation and troop support—and to help promote military reforms and to strengthen the Armed Forces of the Philippines capability against the Communist New People's Army (NPA), the Administration's support package contains:

Authorization and appropriation of an additional $50 million in Military Assistance Program grant in fiscal year 1986;

Conversion of $29.35 million of prior year (fiscal year 85, fiscal year 86) unused foreign military sales credits to military

assistance program grants and replacement of $50 million in FMS credits with MAP grants in the fiscal year 87 budget request. The converted MAP in fiscal year 86 would be available for obligation until September 30, 1986.

The Administration also proposes to repeal Section 901 of the International Security and Development Act of 1985 which contains statements of policy and earmarks of funds for the Philippines which had been enacted out of concern over the activities of the previous Philippines Government. Repeal of Section 901 would remove the condition that all military assistance to the Philippines be non-lethal in character.

The Administration's request for $50 million in MAP and the repeal of Section 901 are contained in S. 2378. The conversion of FMS to MAP is within the scope of appropriations legislation and, therefore, is not contained in S. 2378.

As with the economic assistance, both the conversion of previously obligated FMS credits to MAP, the proposed supplemental of $50 million in MAP in the fiscal year 1987 request and the $50 million shift to MAP in fiscal year 1987 are intended to provide needed assistance without over-burdening the Philippines with additional foreign debt.

Budget impact of proposal

The Administration's request included provision for offsets from Department of Defense accounts for the additional $100 million ESF and $50 million in MAP funds to remain within overall budget totals. The fiscal year 1987 request to shift $50 million in credits to MAP grants required no offsets.

Trade and investment proposals

The Administration has proposed the following measures in the area of trade and investment policy in support of the Aquino government's economic program. These measures do not require changes in legislative authority and, therefore, are not contained in S. 2378.

GSP.—$219 million of Philippine exports benefitted from the U.S. Generalized System of Preferences in 1985, and the Philippines was the 12th largest user of the program. The Administration will work with the Philippine Government on ways to expand and improve their use of this program.

Textiles.—Philippine textiles exports totaled $431 million in 1985 under the existing bilateral agreement that expires at the end of this year. In the forthcoming negotiations for a new agreement, the Administration would hope to continue reasonable growth of textile exports during the critical period of Philippine economic recovery.

Exim Bank.—All Eximbank programs are available to support Philippine imports from U.S. suppliers. Short-term financing for recent shipments amounts to $90 million. Support for $230 million remains available, and this is expected to meet current Philippine needs.

OPIC.—The Overseas Private Investment Corporation is prepared to expand its insurance and guarantee programs in the Philippines as new investment projects develop. It also has available

direct lending resources, particularly for joint ventures engaged in by small and medium size companies. The Administration will discuss with the Philippine Government and the U.S. private sector the possibility of an OPIC investment mission before the end of the year.

DOC.—The U.S. Department of Commerce is in touch with the Philippine Government regarding resumption of trade and investment missions to the Philippines and a series of Philippine trade/investment seminars to be held in the United States.

COMMITTEE COMMENTS

During the June 3 hearing and in the committee markups of June 12 and June 26, there was little disagreement among Members as to the urgent requirement to provide additional assistance to the Philippines. Having closely followed events leading up to the February 7, 1986, election and subsequent change of government, Members expressed their appreciation of the new situation in the Philippines and their desire for the United States to demonstrate strong political and economic support for the Aquino government during an extremely difficult period. Discussion centered on how the United States might do more either through additional funding or through relief of debt burden.

Senator Lugar's proposal to add $100 million to the President's request in ESF for fiscal year 1987 received broad support. In addition, the committee approved a modified Dodd amendment, expressing the sense of Congress that the President should review and examine the feasibility of (1) suspending Philippines debt obligations to the United States government until new debt rescheduling arrangements can be negotiated under the auspices of the Paris Club; and (2) providing to the Aquino government debt rescheduling terms no less favorable than those made available in 1985 to the Marcos government. The Dodd amendment served as a strong reminder to the committee that many aid recipients find themselves in situations similar to that faced by the Philippines and that this issue deserves the committee's urgent attention.

Committee Members also looked with favor on a motion by Senator Sarbanes regarding the desirability of creating a position in the Executive Branch of coordinator (or "Special Envoy") for Philippine assistance programs. After discussion and by a vote of 8 yeas and 3 nays the committee adopted a modified motion to include in the legislation non-binding language making reference to the possibility of establishing a coordinator position.

SECTION-BY-SECTION ANALYSIS

Section 1. Short title

This section provides that the act may be cited as the "Philippines Assistance Act of 1986."

Section 2. Economic and military assistance

This section contains findings that the restoration of democracy in the Philippines provides an opportunity for future growth, prosperity, and stability for the peoples of the Philippines and the

region but that realization of that opportunity in the face of difficulties depends on the willingness of the Government of the Philippines to undertake economic and military reforms and the willingness of the United States and other nations to lend support.

Accordingly, the section authorizes, in addition to amounts already authorized, $100 million in Economic Support Fund for each of fiscal year 1986 and fiscal year 1987, and $50 million in Military Assistance Program for fiscal year 1986.

Section 3. Policy on the coordination of United States programs for the Philippines

This section contains congressional findings that in view of the extraordinary importance of the restoration of democracy in the Philippines and in view of the economic challenges facing the Aquino government, the United States, as the closest ally of the Philippines, has an obligation to formulate and implement policies in a coordinated and comprehensive manner most supportive of the restored democracy in the Philippines. Based on these findings, the section expresses the sense of Congress that the President should consider the possibility of appointing a special coordinator to formulate and implement U.S. programs for the Philippines.

Section 4. Policy on the repayment of debts by the Philippines

Based on congressional findings relative to the threat posed by debt service to a stable economy in the Philippines, this section expresses the sense of Congress that the President should examine in depth the feasibility of providing temporary debt relief for the 1986 and 1987 debt service owed to the United States by the Philippines. The temporary relief would be in effect only until rescheduling agreements have been negotiated under the auspices of the Paris Club.

Section 5. Repeal

This section repeals Section 901 of the International Security and Development Cooperation Act of 1985 which imposed certain conditions on military assistance to the Philippines.

CHANGES IN EXISTING LAW

In compliance with paragraph 12 of Rule XXVI of the Standing Rules of the Senate, the committee notes that no changes are made by this bill.

COST ESTIMATE

Rule XXVI, paragraph 11(a) of the Standing Rules of the Senate requires that committee reports on bills or joint resolutions contain a cost estimate for such legislation in the fiscal year it is reported and in each of the following 5 years. The Congressional Budget Office has prepared the following estimate for this bill.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, June 30, 1986.

Hon. RICHARD G. LUGAR,
Chairman, Committee on Foreign Relations, U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the attached cost estimate on the Philippines Assistance Act of 1986 as ordered reported by the Senate Committee on Foreign Relations on June 26, 1986.

Should the Committee so desire, we would be pleased to provide further details on the attached cost estimate.

With best wishes,

Sincerely,

RUDOLPH G. PENNER, *Director.*

CONGRESSIONAL BUDGET OFFICE—COST ESTIMATE

1. Bill number: Unassigned.

2. Bill title: Philippines Assistance Act of 1986.

3. Bill status: As ordered reported by the Senate Committee on Foreign Relations on June 26, 1986.

4. Bill purpose: This bill authorizes the appropriation of $100 million in economic assistance for each of the fiscal years 1986 and 1987, authorizes $50 million in military assistance for fiscal year 1986, and contains hortative language dealing with debt relief.

5. Estimated cost to the Federal Government:

[By fiscal year, in millions of dollars]

	1986	1987	1988	1989	1990
Authorization amount	150	100	0	0	0
Less appropriation	150				
Net authorization	0	100	0	0	0
Estimated outlays	0	0	100	0	0

Costs for this bill fall within budget function 150.

Basis for estimate: The estimate assumes enactment of this legislation and subsequent appropriation of the additional amount authorized for fiscal year 1987. The $150 million authorized for fiscal year 1986 were appropriated in the Urgent Supplemental Appropriations, 1986, H.R. 4515. The outlay estimate assumes the $100 million for fiscal year 1987 is for budget support.

6. Financing mechanism: This legislation authorizes funding for fiscal year 1987 to be provided in subsequent appropriation acts. Such funding is discretionary and may be lower than the authorized amount. The $150 million authorized for fiscal year 1986 are appropriated in the conference report for H.R. 4515.

Section 4 of the bill recommends that the President consider temporarily suspending the collection of principal and interest repayments to the United States from the Philippines until official debt rescheduling agreements have been negotiated. Presently

debtor countries are required to have a formal arrangement with the International Monetary Fund before the United States will agree to reschedule their debt. Scheduled repayments of principal and interest from the Philippines to various United States agencies are estimated to be $350 million in fiscal year 1987.

7. Estimated cost to State and local governments: None.

8. Estimate comparison: None.

9. Previous CBO cost estimate: None.

10. Estimate prepared by: Joseph C. Whitehill.

11. Estimate approved by: James L. Blum, Assistant Director for Budget Analysis.

EVALUATION OF REGULATORY IMPACT

In accordance with Rule XXVI, paragraph 11(b) of the Standing Rules of the Senate, the committee has concluded that there is no regulatory impact from this legislation.

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